

Message Text

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63

ACTION EUR-12

INFO OCT-01 SP-02 AID-05 EB-07 NSC-05 CIEP-02 TRSE-00

SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01 INR-07

NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04 SIL-01 DODE-00

PM-03 H-02 L-03 PA-02 PRS-01 AGR-10 FEA-01 ISO-00

/115 W

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R 031957Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2601

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JULY 3

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BEGIN SUMMARY: STRONG MARKET PRESSURE PUSHED STERLING TO

NEW LOWS AGAIN THIS WEEK WITH THE POUND FALLING TO A LOW AT ONE POINT OF 29.3 PERCENT. THE RAPID DECLINE OVER THE WEEK CONTRIBUTED TO A SOONER-THAN-EXPECTED GOVERNMENTAL PROPOSAL TO LIMIT WAGE INCREASES TO 10 PERCENT. ALTHOUGH PRESENTED AS A LIMIT TO BE REACHED THROUGH VOLUNTARY ACTION, IT IS ANTICIPATED THAT UNLESS A PROGRAM ACCEPTABLE TO THE GOVERNMENT IS FORTHCOMING VERY SHORTLY, STATUTORY LEGISLATION WILL BE INTRODUCED. NOT UNEXPECTEDLY, THE LEFT-WING OF THE LABOR PARTY AND THE TRADE UNIONS RECEIVED THE NEWS WITH LESS THAN ENTHUSIASTIC RESPONSE. OFFICIAL RESERVES FELL BY \$293 MILLION EQUIVALENT DURING JUNE TO A LEVEL OF \$6,198 MILLION. END SUMMARY

1. GOVERNMENT PROPOSAL TO LIMIT PAY INCREASES: ON JULY 1, CHANCELLOR HEALEY, IN AN ADDRESS TO PARLIAMENT, STATED THAT THE GOVERNMENT WAS PROPOSING A RIGID 10 PERCENT LIMIT ON WAGE INCREASES IN THE NEXT PAY ROUND. THIS, ACCORDING TO THE CHANCELLOR, IS THE KEY ELEMENT IN REDUCING BRITAIN'S RATE OF INFLATION. IT APPEARS THE TRADE UNIONS AND INDUSTRIAL MANAGEMENT WERE GIVEN A WEEK'S NOTICE TO COME UP WITH AN EFFECTIVE AND WORKABLE PROGRAM TO ATTAIN THIS LIMIT, ELSE THE GOVERNMENT WILL MOVE TO MAKE ITS PROPOSALS STATUTORY. DETAILS OF THE GOVERNMENT'S PROPOSALS ARE TO BE ANNOUNCED IN A WHITE PAPER WITHIN THE WEEK. FOR ADDITIONAL INFORMATION, SEE LONDON 10138 AND LONDON 10191.

2. STERLING: THE POUND WAS UNDER STRONG MARKET PRESSURE AGAIN THIS WEEK, FALLING AT ONE POINT TO 29.3 PERCENT WEIGHTED DEVALUATION (SINCE SMITHSONIAN) ON MONDAY, JUNE 30. REPORTS CONTINUE TO CITE HEAVY AND PERSISTENT STERLING SALES BY CONTINENTAL AND OIL-PRODUCING COUNTRIES. THERE WAS A MILD RECOVERY ON JULY 1 IN ANTICIPATION OF CHANCELLOR HEALEY'S STATEMENT WITH A MORE STABLE MARKET IN THE FOLLOWING 2 DAYS. VIS-A-VIS THE DOLLAR, STERLING FELL 425 POINTS (SINCE LAST THURSDAY-JUNE 26) AT MARKET CLOSING ON WEDNESDAY (JULY 2), BUT STRENGTHENED SOMEWHAT AGAINST THE EUROPEAN CURRENCIES.

3. OFFICIAL RESERVES: IN JUNE, UK OFFICIAL RESERVES FELL
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BY AN EQUIVALENT OF \$293 MILLION (101 MILLION POUNDS IF CONVERTED AT PARITY RATE OF \$2.89524, OR 134 MILLION POUNDS IF CONVERTED AT JUNE 30 CLOSING RATE OF \$2.1845). THE DECREASE RESULTED AFTER ACCOUNTING FOR ACCRUALS OF FOREIGN CURRENCY BORROWING BY THE PUBLIC SECTOR UNDER THE EXCHANGE COVER SCHEME TOTALLING \$26L MILLION AND LONG-TERM DEBT SERVICING PAYMENTS OF \$46 MILLION. AT THE END OF JUNE, TOTAL UK RESERVES EQUALLED \$6,198 MILLION EQUIVA-

LENT.

4. MONEY SUPPLY: ALTHOUGH INTERPRETATION OF THE LATEST FIGURES IS SOMEWHAT CONFUSED BY A CHANGE IN THE BANK OF ENGLAND'S METHODOLOGY IN COMPUTING THE MONEY SUPPLY, FIGURES RELEASED THIS WEEK INDICATE THAT THE GROWTH OF THE NARROWLY DEFINED M1 CONTINUES TO BE AT A RATE LESS THAN THE RATE OF INFLATION. BY THE M1 DEFINITION, THE MONEY SUPPLY DECLINED BY 129 MILLION POUNDS (PROVISIONAL) IN MAY TO YIELD AN ANNUAL GROWTH RATE OF 13.9 PERCENT OVER THE PAST 3 MONTHS. BY THE MORE BROADLY DEFINED M3 MEASURE THE ANNUAL GROWTH RATE WAS PROVISIONALLY ESTIMATED AT 8.2 PERCENT (PERCENTAGE CHANGE OVER THE LAST THREE MONTHS AT AN ANNUAL RATE).

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04 SIL-01

DODE-00 PM-03 H-02 L-03 PA-02 PRS-01 AGR-10 FEA-01

/125 W

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R 032016Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2602

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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5. EXCHANGE RATE AND GOLD:

	6/26	7/2	CHANGE
EXCHANGE RATE	\$2.2430	\$2.2005	DOWN \$0.0425
EFFECTIVE DEPRECIATION			
(PERCENT)	27.1	27.8	WIDENED 0.7

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	6/26	7/2	CHANGE
GOLD	\$164.25	\$165.00	UP \$0.75

6. FORWARD DISCOUNT ON STERLING:

	6/26	7/2	CHANGE
1 MONTH	0.60	0.45	DOWN 0.15
3 MONTHS	1.95	1.45	DOWN 0.50
6 MONTHS	4.25	3.50	DOWN 0.75

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

	6/26	7/2	CHANGE
1 MONTH	6-3/8	6-3/4	UP 3/8
3 MONTHS	6-7/8	7-1/4	UP 3/8
6 MONTHS	7-1/2	7-3/4	UP 1/4

8. LOCAL AUTHORITY DEPOSIT RATES:

	6/26	7/2	CHANGE
1 MONTH	9-3/8	8-7/8	DOWN 1/2
3 MONTHS	9-5/8	9-9/16	DOWN 1/16
6 MONTHS	10-1/16	9-15/16	DOWN 1/8

9. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10 PERCENT ON THURSDAY, JULY 3, 1975.

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06 JUL 2006

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